Bond

BOND STORES, INCORPORATED

ANNUAL REPORT TO STOCKHOLDERS

YEAR ENDED DECEMBER 31, 1945

OFFICERS

Barney Ruben	*Chairman of the Board and President*
Irving Cohen	*Vice-President and Treasurer*
James W. Connors	*Vice-President and Secretary*
Sylvan N. King	*Vice-President*
Irving Moselowitz	*Vice-President*
Louis A. Good	*Vice-President*
Rudolph Stulz	*Vice-President*
Carl F. Klemenger	*Assistant Secretary*

BOARD OF DIRECTORS

Barney Ruben
Benj. J. Friedman
Irving Cohen
James W. Connors
Irving Moselowitz
Sylvan N. King
Herbert H. Maass
John M. Hancock
Maurice Wertheim

BOND STORES ARE LOCATED IN THE FOLLOWING CITIES:

AKRON, OHIO
ALBANY, N. Y.
ATLANTA, GA.
BALTIMORE, MD.
BIRMINGHAM, ALA.
BOSTON, MASS.
BUFFALO, N. Y.
CHICAGO, ILL.
(5 stores)
CINCINNATI, OHIO
CLEVELAND, OHIO
COLUMBUS, OHIO
DALLAS, TEXAS
DAYTON, OHIO
DES MOINES, IOWA
DETROIT, MICH.
(2 stores)
FLINT, MICH.
FORT WORTH, TEXAS
HARRISBURG, PA.
HARTFORD, CONN.
HOUSTON, TEXAS
JERSEY CITY, N. J.
KANSAS CITY, MO.
LORAIN, OHIO
LOS ANGELES, CALIF.
LOUISVILLE, KY.
MEMPHIS, TENN.
MILWAUKEE, WISC.
NEWARK, N. J.
NEW BRUNSWICK, N. J.
NEW HAVEN, CONN.
NEW YORK, N. Y.
(8 stores)
OAKLAND, CALIF.
PHILADELPHIA, PA.
PITTSBURGH, PA.
PROVIDENCE, R. I.
READING, PA.
ROCHESTER, N. Y.
SAN FRANCISCO, CALIF.
SCHENECTADY, N. Y.
SCRANTON, PA.
ST. LOUIS, MO.
SYRACUSE, N. Y.
TOLEDO, OHIO
TRENTON, N. J.
WASHINGTON, D. C.
WILKES-BARRE, PA.
YOUNGSTOWN, OHIO

Factories in Rochester, N. Y. and New Brunswick, N. J.

BOND STORES, INCORPORATED
261 FIFTH AVENUE
NEW YORK

March 18, 1946.

TO THE STOCKHOLDERS OF
BOND STORES, INCORPORATED:

Transmitted herewith are copies of the audited balance sheet, surplus and profit and loss statements of our Company for the year ended December 31, 1945.

Despite a most trying year in our industry, we have enjoyed a sales volume in excess of what was to be anticipated in the face of difficult conditions. This is attributable to our ability to secure more raw materials and merchandise than had been thought possible.

The profits derived from this volume are not a true reflection of possible future profits, for we have operated under increased cost of materials and higher labor and operating expenses. Against frozen retail prices these increases could not be absorbed, but recently under new regulations the Office of Price Administration has granted some relief which in the future will permit absorption of a part of these increased costs.

There is every indication of an increased sales volume for 1946, the months of January and February reflecting gains of 23½%, and an even more favorable result could have been achieved had we been able to maintain inventories comparable to customer demand. During the remainder of the year, we are confident that because of a present freer flow of materials increased production will result, thus permitting a better balance of inventories to prospective sales, and cumulatively increasing sales volume should be realized in the remaining months of 1946.

In the President's letter of 1945, we outlined the Company's plans for post-war expansion. This envisaged both enlargement of existing retail outlets and the consummation of leases for new retail units and the construction of a new factory in Rochester, New York. Included in this program was a lease in the Marbridge Building at 34th Street and Broadway, New York City. Because of the subsequent enactment of the rent law of New York, possession could not be secured and as a result the lease was terminated by mutual consent.

The new factory is now in course of construction and should be completed some time before the end of the current year. When finished, it will comprise 790,000 square feet of floor space and will undoubtedly be the largest clothing factory in the world. We will then be in a position to increase our productive capacity of units of men's and women's clothing to approximately three times the present production capacity of our plants.

The program for the expansion of retail units is complete insofar as it involves the making of leases. This does not mean that new store units will not be added whenever favorable opportunities are presented. Alterations and re-equipment of existing stores and the building of new stores will be carried out over the next several years in conformity with the terms of the several leases, subject only to delays occasioned by inability to procure building materials, through shortages or government restrictions or otherwise.

These enlarged and new stores are all in prime locations and will in every respect be the most representative stores of their kind. In all these new store leases, with the exception of one, the landlords contribute a sizable amount of the improvement cost. The increase in volume anticipated for 1946 is not predicated upon the completion of these units. What should be borne in mind is that when these units are operating, they will substantially augment our sales volume from then on.

During the past year the Common Stock of the Company was split up two for one, and the new stock placed on a $1.40 per annum dividend basis, which is equivalent to $2.80 per share on the outstanding Common Stock before split up. As of this date, 30,251 shares of the 4½% Convertible Preferred Stock have been converted into Common Stock, and there are outstanding 29,749 shares of such 4½% Convertible Preferred Stock and 1,546,825 shares of Common Stock.

We maintain our policy of catering to the mass consumer on the basis of quality value for moderate price. Our clothing prices since 1940 have had a very moderate increase, and it is a matter of record that our retail prices are substantially below those of all others in the industry on the basis of comparable value.

In the development of our expansion program, we expect to enjoy the same consumer prestige in women's wear as we have long enjoyed in the men's field. The type and character of customer which we have developed in our women's departments indicates that at such time as general conditions permit us to carry substantially increased inventories, we may look forward to the same enhancement of volume in these departments as we have enjoyed over a period of years in men's wear.

The Company has maintained its policy of paying a substantial bonus to its factory, store and other employees.

During the trying conditions that have prevailed in our industry over the past year, nothing that we have achieved could have been accomplished without the loyal cooperation and devotion of all of our employees, to whom we gladly pay tribute.

Respectfully submitted,

Barney Ruben

President.

BOND STORES,

AND WHOLLY-OW

CONSOLIDATED BALANCE SH

ASSETS

Current Assets:			
Cash on hand and in banks			$11,257,577.14
U. S. Government securities and accrued interest thereon			12,110,079.33
Accounts receivable—customers		$1,951,258.52	
Less: Reserve for doubtful accounts		454,061.36	1,497,197.16
Miscellaneous accounts receivable, sales tax stamps, etc.			259,216.98
Merchandise Inventories—Note A:			
Woolens, trimmings, etc.		$1,861,552.06	
Work in process		901,638.76	
Finished goods		3,576,628.29	6,339,819.11
Total Current Assets			$31,463,889.72
Mortgage receivable—including accrued interest		$ 102,000.00	
Deposits, advances, claims receivable, etc.		64,785.51	166,785.51
Fixed Assets—At Cost—Notes B and C:			
Land		$3,975,953.34	
Buildings	$2,028,410.13		
Less: Reserve for depreciation	510,721.18	1,517,688.95	
Machinery, furniture, fixtures and equipment	$2,451,618.06		
Less: Reserve for depreciation	1,301,828.76	1,149,789.30	
Alterations, improvements and leasehold	$ 872,035.01		
Less: Reserve for amortization	535,094.99	336,940.02	
Total Fixed Assets			6,980,371.61
Deferred Charges:			
Prepaid rent and advances to landlords on improvements to leased properties		$ 41,908.92	
Unexpired insurance and prepaid expenses		221,548.75	263,457.67
			$38,874,504.51

The Notes to Consolidated Financial Statements are an integral

INCORPORATED

NED SUBSIDIARIES

EET AS AT DECEMBER 31, 1945

LIABILITIES

Current Liabilities:			
Mortgage payable—current installments—Note B			$67,242.45
Accounts payable—merchandise and expense creditors			744,618.05
Customers' deposits, etc.			238,688.60
Dividend payable on preferred stock			41,059.68
Fire insurance proceeds to be used for replacement of furniture, fixtures and improvements			102,713.88
Accrued salaries, taxes other than Federal taxes on income, expenses, etc.			2,116,322.60
Reserve for Federal taxes on income—Note D			5,996,376.33
Total Current Liabilities			$9,307,021.59
Mortgage payable by subsidiary—Note B		$3,585,221.13	
Less: Current intallments shown above		67,242.45	3,517,978.68
Total			$12,825,000.27
Capital Stock—Note E:			
Preferred Stock—Par Value $100.00 per Share:	*Shares*		
Authorized—to be issued in series as designated by the Board of Directors	100,000		
Authorized—but not designated	40,000		
4½% Convertible Preferred Stock: (Cumulative)—designated	60,000		
Less: Converted into common stock and held for retirement	24,363		
Outstanding	35,637	$3,563,700.00	
Common Stock—Par Value $1.00 per Share:			
Authorized—of which 169,703 shares are reserved for conversion of preferred stock	2,500,000		
Issued and outstanding	1,518,800.84	1,518,800.84	5,082,500.84
Capital surplus—Note E—Exhibit B		$8,150,913.67	
Earned surplus—Note E—Exhibit B		12,816,089.73	20,967,003.40
Note F—General Comments			
			$38,874,504.51

part of this statement and should be read in conjunction herewith.

BOND STORES, INCORPORATED

AND WHOLLY-OWNED SUBSIDIARIES

CONSOLIDATED STATEMENT OF SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1945

Capital Surplus—Note E:		
Balance—January 1, 1945		$6,531,917.51
Add:		
Excess of conversion price over par value of common stock issued upon conversion of 24,363 shares of preferred stock		2,322,255.00
		$8,854,172.51
Deduct:		
Par value of 703,258.84 shares (including scrip) of common stock issued in connection with split-up of common stock		703,258.84
Balance—December 31, 1945—Exhibit A		$8,150,913.67
Earned Surplus—Note E:		
Balance—January 1, 1945		$10,995,329.76
Add:		
Balance transferred from Consolidated Statement of Income and Profit and Loss—Exhibit C		3,789,610.55
		$14,784,940.31
Deduct:		
Dividends on preferred stock	$ 234,810.83	
Dividends on common stock	1,734,039.75	1,968,850.58
Balance—December 31, 1945—Exhibit A		$12,816,089.73

The Notes to Consolidated Financial Statements are an integral part of this statement and should be read in conjunction herewith.

BOND STORES, INCORPORATED

AND WHOLLY-OWNED SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS

FOR THE YEAR ENDED DECEMBER 31, 1945

Sales, including sales of $1,037,969.24 to U. S. Government		$49,515,032.23
Cost of goods sold, stores and general and administrative expenses		41,235,142.26
Operating profit, before depreciation and amortization		$ 8,279,889.97
Add:		
Income from real estate operations of subsidiary, before deducting depreciation	$292,352.66	
Other income	632,502.74	924,855.40
		$ 9,204,745.37
Deduct:		
Depreciation	$272,366.84	
Amortization	72,767.98	345,134.82
Net profit, before provision for Federal taxes on income		$ 8,859,610.55
Provision for Federal normal income tax and surtax	$1,520,000.00	
Provision for Federal excess profits tax	4,300,000.00	5,820,000.00
Net profit for the period		$3,039,610.55
Add:		
Reversal of reserve for contingencies no longer required		750,000.00
Balance transferred to Earned Surplus—Exhibit B		$ 3,789,610.55

The Notes to Consolidated Financial Statements are an integral part of this statement and should be read in conjunction herewith.

BOND STORES, INCORPORATED

AND WHOLLY-OWNED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1945

NOTE A: Inventories are stated at or below the lower of cost (prime cost as to goods manufactured by Bond Stores, Incorporated, retail inventory method as to furnishings, and invoice cost as to other merchandise, substantially on the "first-in, first-out" basis) or replacement market. Such methods for valuing the inventories are consistent with the practice of prior years.

NOTE B: The property owned by Adda, Inc., wholly-owned subsidiary, is subject to a mortgage in the principal amount of $3,585,221.13, under which the parent company is not obligated. Adda, Inc. is required to make quarterly payments of $50,187.50 to December 13, 1954 and $52,468.75 thereafter to December 13, 1959. The balance of the respective payments, after deducting interest at rates which vary during certain periods, is applied against the principal amount of the mortgage. Adda, Inc. may, on or after December 13, 1954, pay the then unamortized principal amount of the mortgage.

NOTE C: Land and buildings which are carried on the balance sheet in the total amount of $5,493,642.29, is comprised principally of property located at 45th Street and Broadway, New York City, in the amount of $4,206,360.90, owned by Adda, Inc., wholly-owned subsidiary, and the balance represents properties in Rochester, N. Y., and New Brunswick, N. J.

NOTE D: The Federal income and excess profits tax returns of the Corporation have been examined up to and including the year ended December 31, 1941 and all assessments paid.

The Corporation has filed claims under Section 722 of the Internal Revenue Code for refund of a substantial amount of excess profits taxes for the years 1940 to 1944, inclusive, and is contemplating filing a similar claim for the year 1945. No consideration has been given to such claims in the preparation of the accompanying statements.

The accompanying statements are subject to the final determination of the liability for Federal, state and local taxes.

NOTE E: The 4½% Convertible Preferred Stock is redeemable at the option of the Board of Directors at $110.50 per share if redeemed prior to April 1, 1947 and at $108.00 per share if redeemed on or after such date, plus accrued dividends in each case. Upon liquidation, dissolution or winding up of the Corporation, the holders of the 4½% Convertible Preferred Stock shall be entitled to receive an amount of $100.00 per share plus accrued dividends; and in the event such liquidation, dissolution or winding up of the Corporation is voluntary, a premium of $10.50, if such event occurs prior to April 1, 1947, or a premium of $8.00 if such event occurs on or after such date. The premium, computed at the greater amount, on the 35,637 shares of 4½% Convertible Preferred Stock outstanding would be $374,188.50. So long as any shares of Preferred Stock shall be outstanding there are certain restrictions, as more fully set forth in the Agreement of Consolidation, as amended, on payments of dividends and purchase of subordinate stock which may be summarized in part as follows. The Corporation shall not declare any dividends (except dividends payable in shares of stocks over which the Preferred Stock has preference) or make any other distribution, on, or purchase or redeem any shares of subordinate stock, except to the extent that the sum of (a) the consolidated earnings from and after December 31, 1943, as defined; (b) proceeds in certain cases from sale of stock or conversion and (c) an amount of $1,750,000.00, shall exceed the sum of all dividends paid (except certain stock dividends) and all distributions paid, declared or made by the Corporation after December 31, 1943, on shares of any class, and, of all amounts expended after December 31, 1943 in acquiring shares of subordinate stock. As of December 31, 1945, $14,339,468.14 of the aggregate capital surplus and earned surplus of $20,967,003.40, as of that date, is not available for dividends on common stock by reason of the aforementioned restrictions.

NOTE F: General Comments.

The management is of the opinion that it will not be necessary to make any adjustment in connection with renegotiation of Government contracts under the provisions of the War Profits Control Act for the year ended December 31, 1945.

The Corporation has provided for an extensive expansion program which will require substantial expenditures for new factory and store buildings and equipment and for alterations and improvements to present store properties.

ACCOUNTANTS' REPORT

To the Board of Directors,
BOND STORES, INCORPORATED,
New York, N. Y.

We have examined the consolidated balance sheet of Bond Stores, Incorporated, and its wholly-owned subsidiaries, as at December 31, 1945 and the consolidated statements of income and profit and loss and surplus for the year then ended; have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of income and profit and loss and surplus, together with the Notes to Consolidated Financial Statements present fairly the consolidated position of Bond Stores, Incorporated, and its wholly-owned subsidiaries, at December 31, 1945, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y., March 18, 1946.

S. D. LEIDESDORF & CO.